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No. 80-418

In the Supreme Court of the United States

October Term, 1980

UNITED BUSINESS COMMUNICATIONS, INC.,
a Kansas Corporation,
Petitioner,

vs.

MILGO ELECTRONIC CORPORATION,
a Florida Corporation,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE TENTH CIRCUIT

REPLY TO RESPONDENT'S OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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1. THE TENTH CIRCUIT PLAINLY REVIEWED OBVIOUSNESS AS A RULE 52(a) FACT FINDING.

Respondent's brief presents a cunning, but readily transparent, distortion of the Tenth Circuit's views, or at least those of the panel of judges that decided this case, as to the vital patent issue of whether obviousness is a question of fact or question of law. It is submitted that there can be no question but that the current belief

in the Tenth Circuit, as contrasted with most other circuits, is that it is a question of fact and one only to be reviewed under the clearly erroneous standard of Rule 52(a), Federal Rules of Civil Procedure.

Consider the following items:

Item. While the court's opinion states that the "ultimate determination of patent validity is, of course, one of law" (App. A12), this statement is followed immediately with a quotation from *A. E. Staley Manufacturing Co. v. Harvest Brand, Inc.*, 452 F.2d 735 (10th Cir. 1971), *cert. denied*, 406 U.S. 974 (1972):

> The question of invention and thus, patentability, is one of fact. . . .

Item. The court's opinion flatly states: "Obviousness requires factual determinations which are entitled to the usual respect accorded determinations of fact, and, as such, an appellate court is bound by the trial court's findings on obviousness unless they are determined to be clearly erroneous." (App. A13). In justifying its adoption of this rule it referred to the decision in *True Temper Corporation v. CF&I Steel Corporation*, 601 F.2d 495 (10th Cir. 1979), which held:

> We must, therefore in reviewing the findings of the trial court, consider whether they are supported by the record or are clearly erroneous under the standard of Rule 52 F.R.C.P., taking into account the presumption of validity of the patent (App. A14).

The opinion thus states: "applying these standards [the standards of *True Temper Corporation v. CF&I Steel Corporation*] we hold that the Court did not err in finding that the Whang '023 was not obvious." (App. A14).

But, it was not merely the district court's "findings on obviousness" that the court of appeals subjected to

the limited Rule 52(a) review. Rather, the court of appeals affirmed the ultimate obviousness conclusion solely on the basis of its determination that the subsidiary obviousness findings were not clearly erroneous. The court of appeals did not even address the propriety of the district court's application of those findings to the legal standard by which the obviousness conclusion should have been reached (App. A14).

Item. In ruling on the appeal as to validity of the Ragsdale '381 and Payne '023 patents, the court's opinion states:

> Without repeating our prior discussions relative to the presumed validity of a patent when issued, the *issue* of obviousness and weight to be afforded the findings of a trial court within the context of the clearly erroneous rule, we hold the Court properly found the Payne '023 and Ragsdale '381 patents to be valid. (App. A21) (emphasis supplied).

Any question that the Tenth Circuit panel reviewing this case clearly understood the issue of patent obviousness to be one of fact is finally laid to rest by the opinion written by Judge Barrett (one of the panel in this case) in *Norfin, Inc. v. International Business Machines Corporation,* 625 F.2d 357 (10th Cir. 1980), referred to at page 12 of the Petition. Disagreeing with the contention of IBM that "obviousness is a question of law for the Court's ultimate determination" Judge Barrett wrote:

> Whereas, the ultimate question of patent validity is of course one of law . . . obviousness has always been considered a question of fact. Sidewinder Marine, Inc. v. Starbuck Custom Boats & Products, Inc., supra; See also: John Fink Company v. National Airoil

Burner Company, 613 F.2d 547 (5th Cir. 1980); Control Components, Inc. v. Valtek, Inc., 609 F.2d 763 (5th Cir. 1980).

625 F.2d at 364-65.

There is no question but that Judge Barrett regarded the views of the Tenth Circuit on obviousness to be directly in line with those of the Fifth Circuit in *Control Components, Inc. v. Valtek, Inc., supra.* The fact - law dichotomy inherent in the conflict between the Tenth Circuit and other circuits has been brought to this Court's attention also by the Petition for Certiorari filed in *Valtek v. Control Components, Inc.,* No. 80-435, filed August 19, 1980. While that case involves the determination of obviousness by a jury and the affirmation by the Fifth Circuit Court of Appeals of the holding that obviousness is a fact question for a jury, the effect of the conflict that exists is not limited to jury trials, since both jury and non-jury cases require appellate consideration, and there must be a *clear* understanding of the standard by which obviousness determinations are to be reviewed in both instances.

The confusion and the conflicts among the circuits that exist relating to this issue are compellingly pointed out in the Motion for Leave to File Brief of Amicus Curiae and the Brief on Behalf of the Patent Law Association of Chicago Amicus Curiae in Support of Petition filed October 21, 1980, in *Valtek, Inc. v. Control Components, Inc., supra.* In the conclusion to its brief, amicus urges the Court "to resolve the conflicts that have been plaguing the courts and the profession, resulting in major disparities in the administration of patent jurisprudence throughout the various Circuits."

2. THE VALIDITY ISSUE AS TO THE WHANG '023 PATENT IS NOT MOOT.

Respondent also urges that the invalidity of the Whang '023 patent is a moot issue because other patents were found infringed and petitioner has not challenged validity of those patents. Brief for Respondent at 19. This argument cannot stand, for two reasons.

First, the treble damages were awarded on the basis of so called "copying" by petitioner of the "break through" invention of the Whang '023 patent, and the failure of petitioner to consult counsel upon learning of the existence of the Whang '023 patent (App. A38-39). The Whang '023 patent issued August 13, 1970; it was the only patent considered by petitioner prior to suit. There can be no supposition that the basic damage award, or the treble damage award, or grant of attorney's fees, or award of prejudgment interest would survive the invalidation of the Whang '023 patent.

Second, it is also apparent that the petitioner's challenge to the circuit court's affirmance is directed to the validity holding as to all three patents, not just the Whang '023 patent.

3. THE ISSUE OF ALTER EGO IS NOT MOOT.

Respondent contends that there is no need for this Court to review the court of appeals' disposition of the alter ego issue. The basis for that argument is respondent's assertion that the judgment entered against petitioner is valid independent of the district court's conclusion that petitioner was the alter ego of Rixon II. However, a review of the court of appeals' opinion makes

clear that its affirmance of that judgment was based solely upon its conclusion that Rule 52(a) was binding upon it and that the district court's alter ego determination was not clearly erroneous.

The trial court found that "UBC actively induced the infringement of the Milgo patents by and *through* Rixon II." (App. A108) (emphasis supplied). The use of the word "through" in that finding suggests that the active inducement finding was not separated by the district court from the alter ego conclusion. This is logical since an entity cannot actively induce infringement by an entity that is its alter ego. Thus, the court of appeals treated the active inducement finding and the alter ego conclusion as one. Nowhere in the court of appeals' opinion is the finding of the district court regarding active inducement of infringement by petitioner referred to as a basis for affirming the judgment of the district court. It is the decision of the court of appeals to apply Rule 52(a) that petitioner seeks to have reviewed herein. Therefore, the alter ego issue is by no means moot.

4. THERE IS A CONFLICT BETWEEN THE CIRCUITS AS TO THE PROPER APPLICATION OF RULE 52(a).

Respondent contends further that certiorari should be denied because there is no conflict between the circuits on the standard of review to be applied to district court alter ego determinations. The premise of this argument is unsound. Respondent correctly points out, as has petitioner, that certain courts have held that district court alter ego conclusions are findings of fact to be reviewed only under the "clearly erroneous" standard of Rule

52(a).[1] However, respondent refuses to recognize that other courts, on the basis of their conclusion that an alter ego determination is a conclusion of law, and without reference to, or implication of, the applicability of Rule 52(a), have undertaken detailed independent review of such district court determinations. *See* Petition for Certiorari at 18. Thus, the Fifth Circuit, in *Bendix Home Systems, Inc. v. Hurston Enterprises,* 566 F.2d 1039 (5th Cir. 1978), stated that the plaintiff's contention that the defendant was the alter ego of its subsidiary, an insolvent corporation that was indebted to the plaintiff, *"requires us as a reviewing court"* to look to the actions of the parent vis-a-vis its subsidiaries to determine whether the parent "so controlled the activities of its subsidiaries that they were no more than mere instrumentalities used to mislead creditors." *Id.* at 1041-42 (emphasis supplied).

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1. Though there are cases that hold that an alter ego determination is to be reviewed under Rule 52(a), the cases cited by respondent do not fall within this category. In *George W. Bennett Bryson & Co., Ltd. v. Norton Lilly & Co., Inc.,* 498 F.2d 328 (5th Cir. 1974), the court of appeals stated that a *"careful review* of the record reveals that this [alter ego] *conclusion* is amply supported by the evidence." *Id.,* at 329 (emphasis supplied). Its statement, in a separate concluding paragraph, that the district court's findings of fact were not clearly erroneous, gives no indication that the court was affirming the alter ego "conclusion" on that basis. In *Delchamps, Inc. v. Borkin,* 429 F.2d 417 (5th Cir. 1970), the court of appeals merely held that there was evidence in the record to support submission of the alter ego issue to a jury. Rule 52(a) applies only to cases tried to the court. In *Bateman v. United States,* 490 F.2d 549 (9th Cir. 1973), the determination reviewed dealt not with the alter ego issue, but rather, with the issue of whether a corporation set up to receive partnership income had a substantial business purpose so as to qualify for tax treatment independent of its creators. And, in *In re Beck Industries, Inc.,* 479 F.2d 410 (2nd Cir. 1973), the court of appeals stated that the district court's alter ego "conclusion" was without support in the record and therefore clearly erroneous. The court gave no indication that it would have affirmed were that "conclusion" not clearly erroneous. Moreover, the court undertook an independent review of the basis for the district court's alter ego determination and held that "[u]nder the circumstances it was *error* to *conclude* that the equities justified piercing the corporate veil." *Id.,* at 419 (emphasis supplied).

Respondent's attempt to reconcile the different standards of review applied in these two categories of cases is unpersuasive.[2] Moreover, respondent's argument in this regard misses the point raised by petitioner that the courts of appeal have applied inconsistent standards of review under Rule 52(a), not only to district court alter ego determinations, but to many other district court determinations that are based on the application of evidentiary or historical facts to a predetermined legal standard. *See* Petition for Certiorari at 19-20, n. 11. The conflict on the standard of review to be applied to alter ego decisions is but an example of the confusion at the circuit level as to the proper application of Rule 52(a) to such determinations. Granting certiorari to review the court of appeals' application of Rule 52(a) in this case will give this Court the opportunity to provide the courts of appeal with guidance as to the proper standard of review to be applied to all of the myriad district court determinations that are made by measuring evidentiary facts against a predetermined legal standard.

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2. For example, respondent attempts to distinguish *Joseph Lupowitz, Sons, Inc. v. C.I.R.*, 497 F.2d 862 (3rd Cir. 1974) on the grounds that it involved review of a Tax Court decision and the "Tax Court is not under the purview of Rule 52(a)." Brief for Respondent, at 16-17. However, 26 U.S.C. 7482 provides that the courts of appeal shall have jurisdiction to review decisions of the Tax Court "in the same manner and to the same extent as decisions of the district courts in civil actions tried without a jury." This makes applicable the "clearly erroneous" standard of Rule 52 (a) to review of questions of fact determined by the Tax Court. *Estate of Broadhead v. C.I.R.*, 391 F.2d 841, 842 (5th Cir. 1968); *J. S. Biritz Construction Co. v. C.I.R.*, 387 F.2d 451, 455 (8th Cir. 1967).

5. THE TENTH CIRCUIT'S AFFIRMANCE VIOLATES 35 U.S.C. §287.

Petitioner demonstrated to the Tenth Circuit that the district court awarded Milgo trebled "lost sale" damages for *at least* 265 modems which were leased prior to the infringement damage periods and some even prior to issuance of the patents.[3] Petitioner's demonstration of this error was fully supported with detailed references to the record.

Milgo attempts to excuse this error by stating that the district court "found that UBC had failed to account for over 200 missing serial numbers of infringing devices." (Respondent's Brief at 18). This "finding" was a verbatim adoption of Milgo's proposed finding. By the end of trial all production and sales records were available and each lease and sale identified in the record. Petitioner can establish without qualification that over $850,000 in "lost sale" profits were awarded for pre-damage periods transactions.

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3. The dates of the infringement damage periods and the dates each patent issued are not the same. Milgo failed to mark its devices or claim infringement prior to filing suit. Consequently, under 35 U.S.C. §287 the infringement damage periods were narrowed to the date suit was filed for the Whang '023 and the date Milgo gave UBC notice of intent to amend its Complaint to include infringement of the Payne '023 and Ragsdale '381 patents.

CONCLUSION

Petitioner in this case submits that for reasons of proper administration of justice throughout the federal judicial system and the doing of justice in this particular case, its Petition should be granted.

Respectfully submitted,

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